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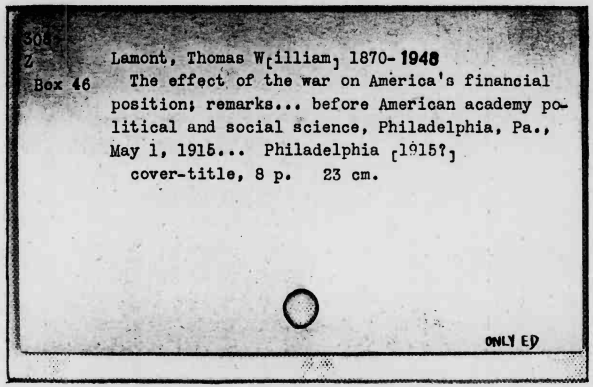
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The Effect of the War on America's Financial Position

Remarks by

THOMAS W. LAMONT, ESQ.

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THE EFFECT OF THE WAR ON AMERICA'S FINANCIAL POSITION.

By THOM. S W. LAMONT.

In analyzing the financial effects of the war, our first view must be in retrospect. The first effects which we witnessed were just prior to, or contemporaneous with, the outbreak of the general war. Those effects were calamitous. We saw our high-grade securities fall with great violence; we saw the entire fabric of foreign exchange, built up over many generations, knocked completely awry; we found ourselves unable to buy sterling exchange wherewith to pay our debts in London. Our gold was being exported in great volume. Within the two weeks after the outbreak of war between Austria and Servia we sent out $55,000,000 of gold. Domestic rates for money advanced to a high figure, and even at that money was scarce and hard to obtain. Ocean transportation was violently disarranged. It was impossible to get bottoms wherein to ship; and the rates for marine and war insurance ran so high that manufacturers could no longer afford to ship. To a period of general business depression that had existed for many months, was added almost complete prostration of trade in various lines particularly affected by the phenomena just enumerated.

The remedies that the country took to save these serious situations just described were prompt, logical and effective. Our securities were being dumped upon us in large volume by foreign holders. Therefore, we closed our Stock Exchange so as to prevent an overwhelming flood of such sales. Gold was being exported and there was danger of a money panic. Therefore our banks went upon a Clearing House certificate basis, and plenty of currency was assured to us by reason that under the Aldrich-Vreeland Act $400,000 of additional currency was almost immediately issued. Our bank situation was strengthened by the efforts to put into prompt working order the new institutions established under the Federal Reserve Bank Act. With equal logic, when it was found that our ocean transportation was all upset, the Federal Marine Insurance Act was passed, thus making it

possible for manufacturers to ship under reasonable rates of insurance.

When London and Paris, in which two cities New York City had outstanding a total of over $80,000,000 due and payable before January 1, 1915, began asking whether they were going to get their money, New York City responded, through her bankers in the formation of the famous $100,000,000 syndicate. Under the terms of this syndicate New York City sold $100,000,000 of its 6 per cent. notes, receiving payment therefor to the extent of $80,000,000 in gold, or adequate exchange, and thus showing the world that under the most difficult conditions she would certainly pay her debts. When other foreign creditors of America raised some question as to their position, the banks of the country organized a gold pool of $100,000,000 to show that there was plenty of gold that could and would be exported, if necessary. When all the South seemed on the verge of a financial breakdown, owing to the depression in the cotton industry, there was organized a banking pool to lend up to $150,000,000 on cotton and, therefore, to bring order out of chaos in that region.

All these remedial measures were taken quietly and effectively, a comparatively few active and patriotic men acting as leaders, but with the loyal and united support of the whole financial community, East and West, North and South. Never did all parts of the country act in co-operation more harmoniously than they did at that time, and I believe that the spirit of the harmony then aroused is something to reckon with and to be glad for, for a long time to come.

Those perplexing and even agonizing days seem now to have passed. What is the situation today?

There has, in effect, been a tremendous reversal of conditions. Money is easy; we are importing gold on a good scale, having already brought back over $40,000,000 of what we sent out last year. Our Stock Exchanges are opened, with the trading free as air, not hampered by the minimum limits which still rule on the London Stock Exchange.

As to foreign holdings of our securities, they are still being sold to us in large volume, and we are easily absorbing them. We even welcome such sales, for they serve to ease up the foreign exchange situation which now has turned almost as heavily in our favor as, last September, it was against us.

Note well these sure indications of how we are turning from debtor into creditor: It costs England 1½ per cent. more than normal to make her remittances to us. It costs France 2½ per cent., Germany over 12 per cent., and Russia fully 20 per cent.

We are piling up a prodigious export trade balance. By the end of the government year, June 30th next, it looks as if it would be over one billion of dollars. Many of our manufacturers and merchants have been doing wonderful business in articles relating to the war. So heavy have been these war orders, running into the hundreds of millions of dollars, that now their effect is beginning to spread to general business which, even if it is still depressed, shows distinct signs of improvement.

And as a climax to all this improvement, America is becoming a large factor in the international loan market. These foreign loans have been so scattered that perhaps the total of them has not been fully appreciated, but just let me enumerate:

To various municipalities and provinces in Canada, American investors have since January 1, 1915, loaned over $60,000,000;

To Russia, twenty-five millions, in addition to private credits which that Government has arranged to approximately the same amount, I should guess;

To France, forty million dollars, or thereabouts;

To Germany, it is stated, although I am not sure of my figures, about ten millions;

To Switzerland, fifteen millions;

To Norway and Sweden, about three millions apiece;

To the Argentine, forty million dollars;

The grand total, therefore, of these foreign loans that

we have made since war broke out, is well over two hundred million dollars.

Such is the situation today. Now what of the future? Many people seem to believe that New York is to supersede London as the money centre of the world. In order to become the money centre we must of course become the trade centre of the world. That is certainly a possibility. Is it a probability? Only time can show. But my guess would be that, although subsequent to the war this country is bound to be more important financially than ever before, it will be many years before America, even with her wonderful resources, energy and success, will become the financial centre of the world. Such a shifting cannot be brought about quickly, for of course to become the money centre of the world we must, as I have said, become the trade centre, and up to date our exports to regions other than Great Britain and Europe have been comparatively limited in amount. We must cultivate and build up new markets for our manufacturers and merchants, and all that is a matter of time.

Therefore, I think I am warranted in saying that this question of trade and financial supremacy must be determined by several factors, a chief one of which is the duration of the war. If, as all humanity is bound to hope, the war should come to an end in the near future, our position would still be much different from, and more important than, what it was prior to the war; but, on the other hand, we should probably find Germany, whose export trade is now almost wholly cut off, swinging back into keen competition very promptly; and we should find that the building up of our foreign trade would be a much slower matter than if the war were to continue indefinitely, thus leaving those foreign fields of trade endeavor more open to us.

Another factor, depending upon the duration of the war, is the extent to which we shall buy back American securities still held by foreign investors. Just prior to the war and since its outbreak we have bought back hundreds of millions of such securities, but the amount still outstanding in the hands of foreign holders must aggregate several

billions of dollars. If we should continue to buy such securities back on a large scale—and the chances are that if the war continues long we shall do that—then we should no longer be in the position of remitting abroad vast sums every year in the way of interest. It would not be necessary for us to secure so much exchange on London and Paris. We should be paying the interest upon our debts to our own people, not to foreigners. Such a development would be of the utmost importance for this country financially.

A third factor, and that, too, is dependent upon the duration of the war, is as to whether we shall become lenders to the foreign nations upon a really large scale. I have pointed out that since the war began we have loaned direct to foreign governments something over $200,000,000. Yet this is comparatively a small sum. Shall we become lenders upon a really stupendous scale to these foreign governments? Shall we become lenders for the development of private or semi-public enterprises in South America and other parts of the world, which up to date have been commercially financed by Great Britain, France and Germany? If the war continues long enough to encourage us to take such a position, and if we have the resources to grapple with it, then inevitably we shall become a creditor instead of a debtor nation, and such a development, sooner or later, would certainly tend to bring about the dollar, instead of the pound sterling, as the international basis of exchange.

These thoughts I have thrown out simply in the way of inquiry and suggestion. No one can make a safe prediction and it is idle to attempt to do so. There are so many cross-currents, so many hidden factors involved, that have a bearing on international trade and international finance, that no one can gauge the future. We are witnessing extraordinary developments on the other side of the water; we are seeing government control of industry being undertaken on a gigantic scale. Will such control continue in part or in whole after the war? Will the value of the co-operative effort which is now being demonstrated, be so great as to demand continuance after the war is over? Shall we see in these belligerent countries after the storm is ended, renewed

energy and fresh organization, or, shall we see languor and prostration?

Here in America shall our manufacturers and merchants be able to take effective steps, with the active co-operation of the government, for the development of foreign business? Will American producers be able to arrange for co-operation among their organizations for foreign sales so as to effect economies in capturing foreign markets? Today our laws do not allow them. Will it be possible to bring about such a change in our shipping laws as to permit the establishment of an American Mercantile Marine? So that Americans, and not foreigners, will reap the benefit of all our enormous trans-Atlantic carrying charges? Will our diplomacy be both helpful and courageous? Will our merchants be wise enough, in catering to foreign markets, to build always for the long future and to exhibit the best that there is in salesmanship, quality and general disposition to please? I believe so. But these are all questions, that, like the others I have enumerated, time only can solve.

We must remember too, that when we talk about this enormous trade balance in our favor, which as I have said may run up this year to one billion dollars, a considerable part of that balance is due to falling off of imports, rather than simply to an increase of exports; and another part of it is due to the fact that we are securing much higher prices than normal for a great many different commodities; wheat, for instance, selling at almost double the price per bushel that it commanded a year ago. Therefore, we must not look upon this year's heavy balance in our favor as a normal one. It is abnormal because of the two factors that I have just mentioned. In our calculations we must be conservative and bear these most important facts in mind.

In all these questions that we have been considering, and that will in the coming months press upon us for solution, finance must naturally play an active part. Some people fail to realize that finance and general business are so interwoven that the success of manufacture and trade depends entirely upon the co-operation of finance. Finance is not isolated, does not work by itself. Finance is not

speculation. It is rather a gigantic fabric, delicately and yet strongly built, patiently constructed through many generations of sound dealing. It is the business of finance to provide the means for the development of mines, our manufactures, our commerce, and even, in some measure, of our agriculture.

For the development of all these industries capital is required in large and increasing measure. On the other hand capital is constantly seeking investment. The frugal are laying by for a rainy day, large estates must reinvest their surplus incomes. It is the important function of finance to bring these two movements together, to see that these savings are turned into the form of sound investment for the development of the country's industries. For this reason the conditions of finance are of world-wide importance. In this country they affect every investor who helps to keep industry supplied with funds for development, and every wage-earner who is dependent for continued and contented employment upon the success of such industries.

And furthermore we must remember that finance is an orderly process, never haphazard, never casual. As we look back we can now realize that those great remedial and protective steps that I have briefly alluded to, the raising here of $200,000,000 of gold, taken by a few gentlemen quietly and without legislative action, were all parts of the great engine of finance working steadily through the industries of the country.

One last word, at the end of it all—how shall Finance have fared? Am I too fervid when I say this:

When that terrible, blood-red fog of war burns away we shall see Finance still standing firm. We shall see the spectacle of the business men of all nations paying to one another their just debts. We shall see the German merchant keeping his word sacred to the English; and the French to the Turk. We shall see Finance standing ready to develop new enterprises; to find money to till new fields; to help rebuild a broken and wreck-strewn world; to set the fires of industry blazing brightly again and lighting up the earth with the triumphs of peace.

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